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June/79

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June 1, 1979

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RAIL PLANNING

N E W S L E T T E R

PREPARED BY: RAIL PLANNING UNIT, MONTANA DEPARTMENT OF HIGHWAYS

EDITORS NOTE:

This is the first edition of a bi-weekly newsletter prepared by the Rail Planning Unit of the Montana Department of Highways to keep those interested in rail planning in Montana informed of (1) the status of planning activities, (2) criteria and goals for rail service, (3) the analytical methods being utilized, and (4) findings and conclusions.

Because of the necessity of bringing our readership up-to-date on the status of rail planning in Montana, this edition of the newsletter should be considered as a special edition. Future editions will be more limited in content.

Should you desire to be included on the mailing list to receive this newsletter or if you have questions or comments, please contact:

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What is State Rail Planning?

As a result of the bankruptcy of seven eastern railroads, and the inability of those railroads to reorganize without substantial Federal assistance, Congress in 1973 passed the Regional Rail Reorganization Act. This action by the Congress provided, among other things, for state planning for local rail service - a type of planning that, prior to 1974, had not been a significant part of federal-state-local planning programs. One section of the legislation directed that, as a prerequisite for eligibility to receive rail service continuation studies, a state was required to establish "a state plan for rail transportation and local rail services which is administered or coordinated by a designated State agency..." This program was limited to midwestern and northeastern states.

In February 1976, Congress passed the Railroad Revitalization and Regulatory Reform Act (commonly referred to as the 4R Act). Section 803 of this Act extended both the local rail service continuation program and the rail transportation planning process to all states in the nation. As a prerequisite, a state was required to establish "an adequate plan for rail services in such State as part of an overall planning process for all transportation services in such State, including a suitable process for updating, revising and amending such plan;" and that "such State plan is administered and coordinated by a designated State agency and provides for the equitable distribution of resources." The Rail Planning unit of the Montana Department of Highways is the designated state agency for rail planning purposes (prior to October 23, 1978, the Montana Department of Agriculture was the agency responsible for this activity).

In general, the role of states (and local governments) in rail planning, as indicated in the 4R Act, is primarily in the field of local rail service. Legislation assigns the primary responsibility for mainline planning (including network designations, performance standards, etc.) to the Federal government and the railroads, individually and collectively. This division of responsibility stems from the fact that railroad mainlines, in almost every instance, span several states; here national or multi-state regional planning

is necessary. Mainline and other aspects of railroad transportation provide facilities and services which are important components of the total transportation system serving state economies and populations. Accordingly, state participation in such planning activities is essential, as has been done in the case of the Milwaukee situation (see the article on the current status of the Milwaukee).

Up until recently, rail service continuation assistance funds could only be utilized on light density lines receiving an ICC certificate of public convenience and necessity permitting the abandonment of these lines. Thus, the focus of the program was on rail lines which were considered uneconomic by the owning railroad. This has been changed somewhat with the passage of the Local Rail Service Assistance Act of 1978, which among other changes broadened project eligibility and the funding allocation formula while instituting specific requirements for project justification. Federal funds are available to States for use in enhancing the viability of light density rail lines or mitigating the effects of abandonment of such lines. The financial assistance can be used in any of five ways enumerated in the Act:

- Subsidy - payments to the operator of the rail service to cover the difference between revenues attributable to the line and the avoidable costs of line operation.
- Acquisition - purchase of the line or right-of-way by the State for the purpose of continued rail operations or banking of the right-of-way for future use.
- Rehabilitation - upgrading the physical condition of the line in order to improve service and reduce the time and cost required to serve the line.
- Substitute Service - projects designed to mitigate the effects of abandonment at a cost less than the cost of continuing rail service through subsidy.
- New Construction - of rail or rail-related facilities, such as a new rail connection, intermodal terminals, sidings, and relocation of existing lines.

Lines carrying less than three million gross tons per year are eligible for Federal assistance under this program. Projects involving acquisition, rehabilitation, new construction or substitute service are to be chosen on the basis of benefit-cost analyses performed on all potential projects. In addition, State rail plans are required to include a methodology for determining the ratio of benefits to costs for projects eligible under this program.

The State rail plan has five required components, but may contain additional elements if a state desires. Most of the required components relate primarily to local rail service assistance, but others are at least partially related to comprehensive planning for all modes. Components include:

- A description of the rail planning process.
- A report on the state rail system, identifying carriers, traffic density, and other system wide information.
- Classification of the state rail system according to the system specified in the August 9, 1976 Federal Register.
- Detailed information on selected light density lines, including a description of the present situation, an evaluation of the costs and benefits of abandonment, and alternatives to abandonment.
- Findings and recommendations.

State rail plans are short range in character. The end product is a program of projects which the state desires to implement during the following year.

PLEASE RETURN
Number 1

Rail Planning in Montana: A Progress Report

Rather than describing the ups and downs of rail planning in Montana since the passage of the 4R Act, this newsletter concentrates on the period since October 23, 1978 when Governor Thomas L. Judge by executive order designated the Montana Department of Highways as the agency responsible for administering rail planning.

Prerequisites for state rail planning are quite simple; only two requirements have to be met. First, a "Planning Work Statement" must be filed with the application for planning assistance funds. Second, the State must provide assurance that it has adequate procedures for financial control, accounting, and performance evaluation. Upon approval, the Federal Railroad Administration would then enter into a grant agreement with the State under which it would disburse planning funds. In Montana's case, a grant agreement had previously been executed with the Montana Department of Agriculture and a Planning Work Statement prepared. Consequently, the Department of Highways revised the then existing statement to reflect philosophical and management differences between the two agencies. This statement covers initial planning only.

A Planning Work Statement is a description of the process by which the State intends to develop the State Rail Plan. Most simply, it is a work program with six principal components:

1. An explanation of the policy framework to be used in guiding the development of the State Rail Plan,
2. A description of the methods by which the State will involve local and regional governmental bodies and the public generally in the rail planning process (Editor's Note: This newsletter is one of the methods being used to communicate and stimulate public participation),
3. Criteria and goals for rail service or properties to be considered for assistance.
4. Identification of the data to be obtained on the rail network and rail services in the State, including the sources of data and the methodology to be employed in data collection,
5. Analytical methodology to be used in the planning process, and
6. A management plan for the development of the State Rail Plan.

Future issues of this newsletter will discuss criteria and goals and the analytical methodology being utilized.

Given the limited staff available in the Department of Highways assignable to rail planning, the lack of rail planning experience, and the limited time frame available to the State for completing its initial State Rail Plan, the Department decided to hire a consultant to undertake the planning work. A large number of firms expressed interest in undertaking this assignment for the State; on the basis of qualifications, this initial list was narrowed down to five firms having previous state rail planning experience. Proposals were then requested and after judging the four responses received, the firm of Roger Creighton Associates, Inc. of Delmar, New York was selected. This particular firm has previously done portions or all of the state rail planning work in eight states, the most recent being Idaho. Associated with Creighton Associates is Robert Peccia & Associates, a Helena transportation planning and civil engineering firm, and Railway Technical Services, Inc., a Portland, Oregon firm specializing in railroad engineering and construction.

The consultant study began on May 14, 1979, with the initial draft of the State Rail Plan to be provided to the Department not later than August 1, 1979. A public hearing on the plan will be held in August. Recently the consultant is undertaking a rail users' survey (see the last article in this newsletter). Nine different light density lines are being studied in the initial planning effort. These lines are listed below:

Milwaukee	Lewistown to Harlowton (10th Sub.)	2
Milwaukee	Lewistown to Winifred (12th Sub.)	3
Milwaukee	Lewistown to Heath (11th Sub.)	2
Burlington		
Northern	Moccasin to Lewistown	1
Burlington		
Northern	Hogeland to Saco	1
Burlington		
Northern	Red Lodge to Silesia	3
Burlington		
Northern	Glasgow to Glasgow AFB	1
Milwaukee ²	Ringling to Dorsey	3

¹ ICC Systems Diagram Category (1 - to be abandoned within three years, 2 - under study for possible abandonment, 3 - abandonment application filed.)

² Line operated by the White Sulfur Springs and Yellowstone Park Railroad Company. Study includes latter's trackage between Dorsey and White Sulfur Springs.

Future articles of this newsletter will describe the analytical processes being utilized and the results obtained as the different tasks and subtasks are undertaken and completed.

The Milwaukee Situation

Readers of this newsletter who follow current events have recently heard much about the financial plight of the Chicago, Milwaukee, St. Paul and Pacific Railroad, more commonly known as the Milwaukee Road or the Milwaukee for short. What the public is witnessing is a fast moving chain of events, the outcome of which is virtually impossible to predict. It will have a major impact on state rail planning in Montana. The purpose of this article is to briefly summarize the current situation.

The origins of the rather dire fiscal situation faced by the Milwaukee stem from the annual losses incurred on a more-or-less regular basis during the 1970's which finally resulted in bankruptcy being declared on December 19, 1977. Normally when such an event occurs, the firm involved is closed down and the assets are then disposed of with the proceeds going to the creditors. Since closing down a railroad company would cause rather severe economic ramifications on those dependent upon rail service, Congress many years ago set up a special process for financially reorganizing railroads forced into bankruptcy while at the same time continuing rail operations at a minimal level. Upon petitioning for bankruptcy under Section 77 of the Federal Bankruptcy Act, The U.S. District Court overseeing the case appointed Stanley E.G. Hillman as Trustee to oversee the reorganization of the company on a self-sustaining basis or liquidation of the Milwaukee, or some combination of the two courses of action. The process is an inherent confrontation between the interests of the creditors, who seek to prevent any further diminuation of their assets (maximize the future settlement) and the public who demands service meeting their shipping needs.

How did the Milwaukee get into this situation? To understand the underlying cause, a brief review of the history of the Milwaukee Road in the west is pertinent. The Milwaukee was the last of the three transcontinental carriers which developed mainline routes through Montana to Washington and Oregon. Consequently it was not able to select the best routes through the mountains, nor was it a land grant railroad able to obtain extensive properties to encourage settlement in proximity to the railroad. The Milwaukee never was able to develop the on-line traffic comparable to the Northern Pacific or Great Northern (now Burlington Northern). To illustrate this point, the Milwaukee originated and terminated 24,399 carloads in Montana during 1975 as compared with the 407,534 originated and terminated by the Burlington Northern. This amounts to 19 carloads per mile of track operated versus 93 carloads per mile for the Burlington Northern and 60 carloads per mile for the Union Pacific. A large portion of the Milwaukee's traffic originates on its branchlines in the Great Falls and Lewistown area, rather than on the mainline. In Montana, the

Railroad	Line (Termini)	Abandonment Status ¹
Milwaukee	Agawam to Great Falls (14th Sub.)	2,3
Milwaukee	Great Falls to Lewistown (13th Sub.)	2

mainline is largely a conduit for traffic moving between the midwest and the west coast. In short, the Milwaukee did not generate enough traffic on its midwest operations to offset the losses being incurred in its "northwest extension."

In the summer of 1978, the Trustee, concluding that the northwest extension was inherently unprofitable, announced a plan whereby Milwaukee lines west of Butte were to be sold to connecting railroads or to be abandoned. The disposition of the remaining lines was held in abeyance until completion of financial studies undertaken by Booz Allen for the Trustee.

In late April the Trustee concluded that the cash flow situation had become so severe that rail service had to be discontinued on a majority of the Milwaukee trackage, including all lines in Montana, and accordingly asked the U.S. District Court overseeing reorganization to allow this course of action. Normally, the ICC has exclusive say over line abandonments; unilateral termination of rail service is an unusual step and only done in extremely dire circumstances. The response was immediate. Various legislative proposals were introduced by Montana Senators and Congressmen to provide loans to the Milwaukee and other forms of financial assistance to keep the line operating in full. In addition, a group known as "Save Our Railroad Employees" has sought to take over the Milwaukee's lines west of Minnesota and run them as a separate company. At this point, the U.S. District Court is considering whether to allow the Milwaukee to discontinue rail service on May 31. Contingency plans whereby other connecting carriers provide "directed service" have been prepared by ICC, with the cost of such service to be borne by the Federal Government. The Commission's temporary plan to maintain essential service for 60 days would be put into effect if the court authorizes the Milwaukee to stop accepting new freight business on May 31 on three quarters of its system. What would happen after this period is presently uncertain.

Whatever the outcome, it is highly unlikely that the Milwaukee will be retained as it presently exists. Major portions of the 1,310 miles of Milwaukee trackage in Montana will probably be abandoned, thus increasing the dependence of the state upon the Burlington Northern for rail transportation.

Why aren't state rail planning activities focusing largely on the possible loss of the Milwaukee from the State and particularly retention of mainline service? First, there is little a State Rail Plan can accomplish within the time frame under which major decisions will be made. Second, the problem is inherently national (or at least regional) in scope. Third, it is more important to focus attention on those segments generating or receiving substantial traffic, the loss of which might cause severe economic impacts to the state. Retention of some form of rail service to major users must be the motivating principle.

Future editions of this newsletter will summarize the Milwaukee to date.

The Rail Users' Survey

Many of the readers of this newsletter have already been active participants in the rail planning process through the rail users' survey. It will usually begin with a letter from the Montana Department of Highways introducing the survey and requesting respondent assistance and cooperation in providing the required information.

This is followed by a telephone call requesting a specific time for a personal interview. At the mutually agreed-upon time, the interviewer arrives and asks a series of questions on 1978 rail and truck shipments, the size and characteristics of the shipper or consignee utilizing rail service, and the anticipated impact that would occur were rail service discontinued. In a few cases, telephone interviews are utilized in lieu of personal visits if more convenient to the respondent and interviewer.

In an age when there is increasing public annoyance with government intrusion into different facets of an individual's affairs, is this in-depth inquiry all that necessary? The fact of the matter is that shippers and consignees play a very large role in the economic evaluation of individual light density lines by providing information which cannot be obtained from any other source. The

honesty and forthrightness of most respondents aids immeasurably in the evaluation process. Both the Montana Department of Highways and the consultant express their appreciation for the contributions made by the approximately 200 firms or individuals being contacted, and in return assure respondents that data from the individual responses will be only released in a summary fashion.

One of the main uses of the data is in determining the added costs that would be incurred to present rail service users were rail service terminated. Component impacts are briefly described below:

- **Changes in Transport Costs** - If trucking rates are higher than rail rates, then the difference times the tonnage being shipped represents an economic impact or cost, unless this differential can be passed on to others (i.e., in the form of higher prices) outside of area served by the light density line. Increased transport costs is the major impact anticipated with the cessation of rail service on light density lines in Montana.
- **Job Losses** - Occasionally, the loss of rail service results in job losses to firms dependent on rail service through production cutbacks or plant relocation or closing. While most employees ultimately will find replacement jobs, a loss in personal income does occur during the transition period. In addition to primary job losses, some additional economic losses occur in service industries (secondary job losses) through what is commonly referred to as the multiplier effect.
- **Transfer Payments** - Wage and salary losses from involuntary job termination are to some extent offset by unemployment compensation. The latter is a cost borne by all employers in the State; consequently it represents a cost that would not occur if rail service is continued without interruption. While this component is generally quite small, it is a consequence of anticipated employment changes with the loss of rail service.
- **Tax Losses** - Again, the loss of rail plant and especially industries dependent upon rail service will eventually result in tax losses at both the state and local levels. While this component is generally quite small, it is a consequence anticipated production or locational changes with the loss of rail service.

The above four components, summed together over a period of time, can be considered as the cost to local residents in Montana of discontinuing rail service on a particular light density line. Ultimately, this information is compared with the cost of continuing rail service (if revenues are less than operating costs) on the cost of rehabilitating light density lines in poor physical condition. The answers obtained largely establish whether there is an economic basis for public investment in continuing or improving rail service on light density lines for which the owning railroad is or may seek abandonment.

In conducting the rail users' survey, it is possible that we missed some of the active users on the lines identified earlier. If this is the case, or if you have additional information pertinent to the use of rail service, please contact Mr. Daniel Norderud, Robert Peccia & Associates, One North Last Chance Gulch, Helena, MT 59601 (406) 442-8160.

A Preliminary Statement of Montana Railroad Transportation Policy

It is hereby declared to be the railroad transportation policy of the State of Montana that the continued health and welfare of its citizens demand a viable railroad transportation system, adequate to meet our economic needs and necessities; to encourage, promote, and support safe, adequate, economical, and efficient rail service in the private sector; to foster the establishment and maintenance of just and reasonable charges for transportation services rendered; to cooperate with the railroads, other States, and the Federal Government; all to the end of developing and preserving a privately owned railroad system, as part of Montana's total transportation system, adequate to meet the needs of our citizens and their commerce.

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